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SENSITIVE, SIPDIS

STATE FOR WHA/MEX, WHA/EPSC
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TAGS: [ECON](#) [ENRG](#) [EINV](#) [PGOV](#) [SENV](#) [MX](#)

SUBJECT: US - MEXICO REVIEW SEISMIC; DISCUSS GOM PROPOSAL TO
NEGOTIATE TRANSBOUNDARY RESERVOIRS

- A) Mexico 2445
- B) Mexico 1076 and previous

¶1. (SBU) Summary: US and Mexican officials held the fourth in a series of formal consultations under Articles 4 and 5 of the Western Gap Treaty October 19 in Villahermosa, Mexico. In reviewing Mexican seismic data, USDEL found promising structures on the Mexican side of the boundary as well as potential for trans-boundary reservoirs. Mexican delegation welcomed news that the USG is working to extend the ten-year moratorium on oil and gas drilling and exploitation within the buffer zone inside the Western Gap. Mexican delegation presented a general outline of a potential treaty on the development of trans-boundary oil and gas reserves and will present a draft text to the USG soon. The tone of the meeting was the most positive yet in our series of discussions and demonstrated a growing level of confidence between the delegations. End Summary.

¶2. (SBU) US (State and MMS/Interior) and Mexican (SRE SENER, CNH, and PEMEX) officials met at Pemex facilities in Villahermosa, Tabasco October 19 for the fourth in a series of formal consultations under the Western Gap Treaty. The first part of the meeting focused on viewing Mexican seismic data and discussing the possibility of trans-boundary reservoirs. Leading the discussion, Alfredo Guzman of the Mexican National Hydrocarbons Commission (CNH) asserted that there is potential for trans-boundary reservoirs - especially in the Perdido Fold area of the Gulf of Mexico. David Cooke, MMS Geologist, found that the data showed some promising geological structures on the Mexican side of the boundary and the potential for trans-boundary reservoirs.

¶3. (SBU) Both sides expressed concerns that once the Shell Oil-operated Great White field on the US side of the boundary goes into production late 2009 or early 2010, the Mexican media may again raise the "popote effect" - an erroneous claim that wells on the US side will siphon off Mexican oil. The data indicates faulting within the Great White field, and demonstrates a structural "low" which separates Great White from the prospective structure and other prospects on Mexico's side of the boundary. In addition, once production begins, engineers will probably further reduce the size of individual reservoirs based on their performance. Guzman suggested the possibility of working together using the seismic data to refute possible media reports to the contrary. The USG will raise this again with the appropriate Mexican interlocutors as needed.

Update on Deepwater Drilling

¶4. (SBU) GOM officials confirmed that Pemex has contracted a deepwater rig for the Perdido Fold Belt area and will begin drilling by the end of 2010. The first Mexican exploratory wells will be drilled in the Maximino area November 2010, approximately 45

kilometers from Great White.

15. (SBU) Kevin Karl, MMS, updated Mexican delegation on US leases and activities on blocks close to the US-Mexico maritime boundary. He explained that, based on statistics to date, the average reservoir size is 500-1000 acres with individual wells draining 100-400 acres. Currently the closest wells are being drilled 5.5 miles from the boundary, which makes drainage from the Mexican side highly improbable. Karl explained that the reservoirs in this area of the Gulf can be challenging and have a low recovery factor - 18-36% depending on which reservoir is being produced and based on Shell data. Flow assurance is a major issue. He added that we will have much more specific information once Great White begins production. Other fields - including Silver Tip and Tobago - will commence production at roughly the same time and will be tied back to the Perdido Hub facility.

ELEMENTS OF AN AGREEMENT

16. (SBU) Mexican Legal Advisor Joel Hernandez outlined the Mexican concept for a bilateral agreement to govern the development of trans-boundary oil and gas reservoirs. He confirmed that Mexico is no longer proposing that the agreement cover both the maritime and land boundary, but would instead focus only on the maritime border. He explained that, by negotiating now, Mexico hopes to take a preventive approach, which could provide legal certainty to would-be investors while assuaging unfounded Mexican fears that US drilling could drain Mexican resources. The agreement would authorize licensees on both sides of the border (Pemex on the Mexican side and commercial entities on the US side) to negotiate unitization agreements and joint operating agreements for the purpose of

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developing trans-boundary reservoirs. He added that, by doing so, the framework would promote energy security for North America by allowing both sides to take advantage of the resources found on their side of the boundary.

17. (SBU) Mexico is working on a proposed text for such an agreement, Hernandez continued, and will provide it to us shortly. Sam McDonald (State - L/OES) said the US looked forward to seeing the Mexican draft, though he explained that the USG did not yet have authority to negotiate. In the text, Hernandez continued, Mexico will propose the following process for the development of a trans-boundary reservoir:

- a. Notification of possible existence of a trans-boundary reservoir[, or of commencement of exploratory activities within a certain range of the border];
- b. Consultation and exchange of information in order to jointly determine existence of trans-boundary reservoir;
- c. Negotiation by licensees of a unitization contract;
- d. Negotiation by licensees of an operating agreement for the development of trans-boundary reservoir as a unit.

18. (SBU) Hernandez said that the GOM would borrow ideas for the proposed text from a variety of existing bilateral agreements as well as the US-Mexico bilateral experience in other areas. Hernandez provided a general outline of elements that they planned to include in their proposed text - including elements of a unitization agreement; guidelines on apportionment and reapportionment; guidelines for operating agreements; regulations for the use of facilities near the delimitation line; creation of a joint commission to examine issues referred by either government, and provisions for dispute settlement. For the Joint Commission, Hernandez pointed out that the US and Mexico have some good examples to draw on. The US-Mexico Boundary and Water Commission, for example, could be the model of a technical body that advises the governments.

19. (SBU) Hernandez added that Mexico believes negotiating a treaty would facilitate cooperation and enhance the profitability of small fields by using existing infrastructure on the US side of the boundary. Although the agreement would only apply to reservoirs that physically straddle the boundary, Hernandez explained that it would facilitate the development of broader trans-boundary fields.

Operators on both sides of the boundary could develop these fields using collection facilities constructed on either or both sides of the border.

¶10. (SBU) Turning to the Western Gap Treaty, Hernandez proposed that the US and Mexico extend the moratorium on oil and gas drilling and exploitation in the 2.8 nautical mile buffer zone (Article IV, paragraph 1) until a bilateral agreement on trans-boundary reservoirs enters into force. He added that Mexico is concerned also about exploitation activities outside the Western Gap area. He proposed that the buffer zone be extended beyond the Western Gap to cover the entire maritime boundary. He noted that such an interim agreement would preserve both countries' rights until a trans-boundary agreement is negotiated.

¶11. (SBU) McDonald responded that it is the intention of the Executive Branch to extend the moratorium in the Western Gap, and that State is already consulting with the Senate on this. Brian Duggan (State - EEB/ESC) offered a proposed visit by State Department Energy Coordinator David Goldwyn as an opportunity to rollout the extension of the moratorium. Both sides agreed to work together to coordinate the timing and potential deliverables for that visit. Duggan also noted that State and MMS had developed a mechanism to review applications for petroleum pipelines that cross our international border, resolving regulatory ambiguity that should enhance the GOM's ability to auction service contracts near the border. MMS Renee Orr offered to make staff available to train officers from SENER and the Hydrocarbons Commission on all aspects regulating industry in a transparent manner. In response to the GOM's request to expand the moratorium to apply to the entire maritime boundary, McDonald explained that the legal and policy considerations were more complicated, in part because the USG has already leased blocks along the border in other areas of the Gulf of Mexico.

¶12. (SBU) McDonald requested that as the USG and GOM continue their technical discussions, both sides refrain from making any public comments about possible negotiations. Hernandez agreed. He added that the GOM has told the Mexican Congress that Mexico has proposed negotiations to the USG, but has not and would not share any details of bilateral discussions.

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¶13. (U) Participants:

US:

- Sam McDonald, L/OES, State
- Brian Duggan, Energy Producer Country Affairs, EEB, State
- Andrew Dowdy, Deputy Director, WHA/EPSC, State
- Renee Orr, Chief, Leasing Division, Offshore Energy and Minerals Management, MMS
- Kevin Karl, Regional Supervisor, Office of Production and Development GOMR, MMS
- Dave Cooke, Deputy Regional Supervisor, Resource Evaluation, GOMR, MMS
- Sigrid Emrich, Deputy Economic Counselor, US Embassy Mexico

Mexico:

- Ambassador Joel Hernandez, Legal Advisor, SRE
- Nicolas Guerrero Peniche, Legal Affairs, SRE
- Alfredo Guzman, National Hydrocarbons Commission
- David Madero, Director General for Exploration, SENER
- Leonardo Beltran, International Negotiations, SENER
- Enrique Puchet Canepa, Legal Affairs, SENER
- Guillermo Zuniga, SENER
- Juan Julian Ramirez, SENER
- Jose Antonio Escalera, Deputy Director for Exploration, PEMEX
- Fernando Lopez Arriaga, PEMEX
- Luis Macias, PEMEX
- Fernando Lopez Arriaga, PEMEX
- Xavier Antonio, Advisor to the Legal Counsel, PEMEX
- Jos Luis Herrera, Head of the International Legal Affairs Unit, PEMEX
- Trinidad Martinez Vazquez, PEMEX
- Carlos Quesnel, Embassy of Mexico, Washington DC

¶14. (SBU) Embassy Comment: The Mexicans see an agreement on trans-boundary reservoirs as an important opportunity for PEMEX to work with IOCs and gain expertise in deepwater drilling. For the first time in decades, the door has opened a crack to the USG engaging constructively with Mexico on oil. Since the Mexicans first made the proposal to engage in negotiations August 2008, both sides have developed a better understanding of each other's policies and practices and a level of confidence that could spill over into other areas of cooperation. If bilateral discussions later promote a further opening of Mexico's oil sector, it could benefit both governments and commercial interests. Given Mexico's political calendar, we should make a decision on whether to negotiate the proposed agreement before the focus on the 2012 Presidential elections and energy topics become taboo once more.

¶15. (U) USDEL cleared this cable.

Feeley